



ANNUAL REPORT 2002

SASKATCHEWAN OPPORTUNITIES CORPORATION

2002

A YEAR OF CHANGE

In March 2002, the Premier of Saskatchewan announced a major reorganization of the government to help it better meet Saskatchewan's economic and social priorities. Ten departments and agencies were merged and others restructured, for a total reduction of four departments. As part of this important initiative it was announced that the Saskatchewan Opportunities Corporation (SOCO) would be wound down, with responsibility for its research parks and existing investment portfolio moving to the Crown Investments Corporation.

SOCO staff have been assisting with the reorganization and transfer of staff and responsibilities to CIC. Ten staff from SOCO's investment division were relocated to CIC as of May 1, 2002. Formal transfer of the investment portfolio took place as of October 9, 2002.

The Interim Board of SOCO determined that a study should be carried out in regard to the Research Parks Division and its ownership, governance and financial structure. That study is expected to be delivered early in 2003.

In consideration of the organizational changes in 2002, the CIC Board exempted SOCO from the *Performance Reporting and Disclosure Policy for Annual Reports of CIC and Subsidiary Crown Corporations* for its 2002 Annual Report.

REPORT

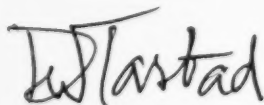
FROM THE PRESIDENT

2002 was a year of fundamental change for SOCO. The transfer of the Investment Division staff and mandate to Crown Investments Corporation resulted in a new clarity of focus for SOCO based solely on research park development and management. Change is disruptive and unsettling and the employees of SOCO have performed with dedication and dignity throughout this difficult year.

During 2002, the results of the latest independent study of the economic impact of the research parks were released, proving the increasing importance to Saskatchewan of these developments. Tenants within the parks contributed close to \$389 million to the provincial economy or more than 1% of the Provincial Gross Domestic Product. These tenants employed 2,750 people and supported an additional 3,150 jobs.

The operating highlight of the past year was the dramatic increase in business activity at the Innovation Place Bio Processing Centre (BPC). This advanced technology processing facility extracts active compounds from plant material. Sales more than tripled to over \$2,000,000 and 14 clients accessed the processing capability of the BPC, creating a diverse range of bio-products. Products from the BPC are used in cosmetics, as functional food additives, in nutraceutical products and in bio-diesel. The exciting new area of bio-products promises continued growth, benefiting the province's farmers, the environment and the health of our citizens.

The organizational review now underway will mean a new structure for the research parks and more change. I am confident the staff of SOCO will take on the challenges of the future with the same enthusiasm and competence as they have shown in building the international reputation of our parks in the past.



Douglas Tastad
ACTING PRESIDENT AND CEO



MANAGEMENT'S DISCUSSION AND ANALYSIS

1 FINANCIAL REVIEW

In 2002, the business activities of the Saskatchewan Opportunities Corporation (SOCO) centered on two operating divisions mandated to foster economic development in the province: the Investments Division and the Research Parks Division. As a result of the 2002 Provincial Government Budget speech, the Investments Division which provided loans, equity and guarantees to Saskatchewan businesses was transferred to the Crown Investments Corporation (CIC) in October. The remaining Research Parks Division continues to manage and operate Saskatchewan's two research parks: Innovation Place in Saskatoon and the Regina Research Park. In an effort to support decisions regarding the future of the research parks, the Research Parks Division underwent an operational review during 2002; the results are expected to be finalized in early 2003.

During 2002, the Corporation made substantial progress in its mandate to encourage economic growth in Saskatchewan. Based upon a survey of the tenants in 2001, the economic impact of research park tenants on the Saskatchewan economy was \$389 million.

Prior to transferring the investment portfolio to CIC, SOCO experienced a net decrease in the size of its investment portfolio. The financial results of the discontinued operations show an improvement from 2001, which is mainly a result of additional funding from the General Revenue Fund (GRF) to cover the repayment of debt not transferred to CIC.

The growth in research parks' assets slowed considerably relative to 2001, as only one new building at Innovation Place was completed (in April 2002). The research parks financial results showed a decline relative to 2001 due mainly to increased interest and amortization costs. In addition, wind down costs were incurred by SOCO to cover severances and the operational review. GRF funding was significantly reduced in 2002.

2 CAPITAL INVESTMENT AND FINANCING

Investment in new research park assets during the year totaled \$2.3 million. This is substantially lower than the previous year as no new major construction was planned for, or initiated in 2002.

Since 1997, all of the Corporation's capital expenditures have been financed through short-term advances from the GRF. Since that time, \$130 million in short-term debt has been converted to longer terms to mitigate the financial impact of future interest rate fluctuations. The conversion of short-term advances to longer terms facilitates matching of the estimated useful lives of research park assets with the terms of the associated liability.

3 FINANCIAL CONDITION

Since inception in 1994, SOCO has received no equity advances. The Corporation has relied exclusively on debt financing and cash from operations to acquire and expand its research park operations. SOCO makes regular interest payments to the General Revenue Fund (GRF) on all its debt. Operating grants are received from the GRF to assist SOCO in meeting its economic development mandate.

4 RISK FACTORS

The risks facing the Corporation fall into three categories: credit risk, rental property vacancy risk and interest rate risk.

Credit Risk

As with any property management business, credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The Corporation's policy to promote economic development leads to accepting some tenants with higher than average credit risk. Credit risk is mitigated as no one tenant occupies more than 10% of the rentable space.

Rental Property Vacancy Risk

Rental risk is inherent in the property management business. The majority of research park costs, such as amortization, property taxes and interest are fixed costs. As such, the operating results of SOCO's research parks depend to a large extent on the level of occupancy achieved. Therefore, the critical risk factor related to research parks is that tenants will leave and not be replaced, leaving the parks unable to cover fixed costs. However, given the historically high occupancy rates and the current leases at Innovation Place and the Regina Research Park, management does not consider this to be a significant risk for the foreseeable future.

Interest Rate Risk

In an on-going effort to mitigate interest rate risk for the research parks, SOCO converts short-term debt to longer terms when market conditions are favorable. At the end of the 2002 fiscal year, only \$15.8 million of short-term debt was outstanding that related to research parks. A rapid and dramatic rise in interest rates may have an impact on the research parks' operating results because increased interest costs cannot be passed onto tenants immediately or in their entirety. Management closely and continuously monitors interest rates and market conditions.



AUDITOR'S REPORT

We have audited the statement of financial position of the Saskatchewan Opportunities Corporation as at December 31, 2002, and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP
CHARTERED ACCOUNTANTS
REGINA, SASKATCHEWAN
FEBRUARY 14, 2003



STATEMENT OF FINANCIAL POSITION

as at December 31, 2002

2002

2001

in thousands of dollars

ASSETS

Cash	\$ 1,853	\$ 1,171
Accounts Receivable and Prepaid Expenses	4,522	3,020
Investments	119	119
Capital Assets (Note 3)	141,545	143,089
Assets of Discontinued Operations (Note 2)	—	22,462
	<u>\$ 148,039</u>	<u>\$ 169,861</u>

LIABILITIES AND EQUITY

Accounts Payable and Accrued Liabilities	\$ 4,237	\$ 5,041
Notes Payable (Note 4a)	15,800	9,700
Long-Term Debt (Note 4b)	126,469	127,492
Liabilities of Discontinued Operations (Note 2)	—	24,721
	<u>146,506</u>	<u>166,954</u>
Province of Saskatchewan's Equity		
Retained Earnings		
Unappropriated	1,533	1,242
Appropriated (Note 5)	—	1,665
	<u>1,533</u>	<u>2,907</u>
	<u>\$ 148,039</u>	<u>\$ 169,861</u>

(Commitments and Contingencies – Note 9)

(See Accompanying Notes)

On behalf of the Board

Blair Swystun

Kathryn Buitenhuis



STATEMENT OF OPERATIONS AND RETAINED EARNINGS

for the year ended December 31, 2002

	2002	2001
	<i>in thousands of dollars</i>	
REVENUE		
Rental and Development Income	\$ 17,821	\$ 15,658
Operating Contribution - General Revenue Fund	<u>4,352</u>	<u>4,621</u>
	<u>22,173</u>	<u>20,279</u>
EXPENSES		
Operating and Administration	2,369	2,642
Interest (Note 4d)	7,345	6,516
Rental and Development	10,740	8,727
Amortization	3,829	3,101
Restructuring	<u>464</u>	<u>-</u>
	<u>24,747</u>	<u>20,986</u>
Loss From Continuing Operations	(2,574)	(707)
Income (Loss) From Discontinued Operations (Note 2)	<u>1,200</u>	<u>(1,475)</u>
Net Loss	<u>(1,374)</u>	<u>(2,182)</u>
Retained Earnings:		
Unappropriated, Beginning of Year	1,242	1,992
Change in Appropriated Retained Earnings (Note 5)	<u>1,665</u>	<u>1,432</u>
Retained Earnings, Unappropriated, End of Year	<u>\$ 1,533</u>	<u>\$ 1,242</u>

(See Accompanying Notes)



STATEMENT OF CASH FLOWS

for the year ended December 31, 2002

	2002	2001
	<i>in thousands of dollars</i>	
OPERATING ACTIVITIES		
Loss from Continuing Operations	\$ (2,574)	\$ (707)
Add (deduct) non-cash items:		
Amortization	3,829	3,101
Change in non-cash operating items:		
Increase in Accounts Receivable and Prepaid Expenses	(1,502)	(320)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	461	(980)
Cash Provided by Continuing Operating Activities	<u>214</u>	<u>1,094</u>
INVESTING ACTIVITIES		
Decrease in Accounts Payable for Capital	(1,265)	(810)
Investment in Capital Assets	<u>(2,285)</u>	<u>(17,194)</u>
Cash Used in Continuing Investing Activities	<u>(3,550)</u>	<u>(18,004)</u>
FINANCING ACTIVITIES		
Net Change in Notes Payable	6,100	3,113
Net Change in Long-Term Debt	<u>(1,023)</u>	<u>9,025</u>
Cash Provided by Continuing Financing Activities	<u>5,077</u>	<u>12,138</u>
Net Cash (Used in) Provided by Discontinued Operations (Note 2)	<u>(1,059)</u>	<u>4,654</u>
Increase (Decrease) in Cash Position for the Year	682	(118)
Cash, Beginning of Year	<u>1,171</u>	<u>1,289</u>
Cash, End of Year	<u>\$ 1,853</u>	<u>\$ 1,171</u>
Supplementary Information:		
Interest Paid on Notes Payable and Long-Term Debt	\$ 7,897	\$ 8,254

(See Accompanying Notes)



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Saskatchewan Opportunities Corporation (the "Corporation") was incorporated under *The Saskatchewan Opportunities Corporation Act*, which was proclaimed and came into force on August 15, 1994. The Corporation is an agent of Her Majesty in Right of the Province of Saskatchewan and as a provincial Crown corporation is subject to neither federal nor provincial income tax. The financial results of the Corporation are included in the consolidated financial statements of Crown Investments Corporation of Saskatchewan (CIC).

On March 27, 2002, the Minister of Finance for the Province of Saskatchewan, through release of the 2002-03 fiscal budget, announced the Province's intention to wind down the operations of the Corporation. At that time, it was announced that the Corporation's Investment Division would be transferred to CIC Industrial Interests Inc. (CIC III), a wholly owned subsidiary of CIC. This transfer is accounted for as Discontinued Operations and is disclosed in note 2 to these financial statements.

As at December 31, 2002, no formal plan of disposition had been approved for the Corporation's Research Parks Division. As such, these financial statements are prepared on the assumption that the Corporation is a going concern.

The Corporation's mandate is to facilitate economic growth in Saskatchewan by investing in research parks that support the development of business.

1. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following accounting policies are considered to be significant:

a) Investments

Investments consist of an investment received in lieu of rental arrears. The investment is valued at the lower of cost and net realizable value with net realizable value representing management's best estimate of the amount that would be realized if the investment was disposed of in an orderly manner over a reasonable time period. Investments are written down when the decline in value is other than temporary.

b) Capital Assets

Capital assets are recorded at the lower of cost, net of accumulated amortization, and net recoverable amount. The cost of capital assets includes direct development costs and interest capitalized during construction. Rental assets consist of buildings at Innovation Place and Regina Research Park, as well as related site improvement costs, tenant improvements, furniture and equipment. Office equipment and furniture are assets used by the Corporation in its own offices.

Buildings and site improvement costs, net of estimated residual value, are amortized on a straight-line basis over the estimated useful life of the particular asset (15 to 40 years). Tenant improvements are amortized on a straight line basis over the term of the associated lease (five to 10 years). Equipment and furniture are amortized on a straight line basis over three to five years.



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Construction in progress consists of buildings and tenant improvements currently under development. Buildings under construction are converted to rental assets at the earliest of one year after substantial completion or upon attaining 50% occupancy. No amortization is taken on assets under construction until they are converted to a rental asset.

c) Revenue Recognition

All revenue is recognized based on the Corporation's right to revenue pursuant to contracts with customers, tenants and clients using the accrual basis of accounting.

d) Operating Contribution

Operating contributions are provided by the General Revenue Fund (GRF) in recognition of the Corporation's economic development mandate. These funds are to cover the budgeted costs of corporate administration and operation of the Research Parks Division and are recognized as revenues when they are due to the Corporation.

e) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

2. DISCONTINUED OPERATIONS

Discontinued operations consist of the Corporation's Investment Division which was divested during the year as follows:

March 27, 2002 – Announcement was made that the Corporation's Investment Division portfolio assets, liabilities and obligations would be transferred to CIC III.

October 9, 2002 – The investment portfolio was transferred to CIC III at book value of \$19,829,000 with an equal amount of debt also being transferred.

December 31, 2002 – The Corporation received an additional \$2,672,000 of operating contribution from the General Revenue Fund through the cancellation of a short term note owed to the General Revenue Fund.



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Summarized financial information of discontinued operations is as follows:

	2002	2001
	(in thousands of dollars)	
REVENUE		
Investment Income	\$ 1,201	\$ 2,044
Operating Contribution – General Revenue Fund	3,562	1,495
Investment Contribution – General Revenue Fund	1,248	1,308
	<u>6,011</u>	<u>4,847</u>
EXPENSES		
Operating and Administration	1,655	2,305
Interest	406	868
Amortization	132	150
Charge for Investment Impairment	2,269	2,740
Loss from Equity Investments	235	259
Restructuring	114	–
	<u>4,811</u>	<u>6,322</u>
Net Income (Loss) from Discounted Operations	<u>\$ 1,200</u>	<u>\$ (1,475)</u>
ASSETS		
Accounts Receivable and Prepaid Expenses	–	\$ 1,647
Investments	–	20,797
Capital Assets	–	18
	<u>–</u>	<u>\$ 22,462</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	–	\$ 220
Notes Payable	–	24,501
	<u>–</u>	<u>\$ 24,721</u>
CASH FLOWS		
Net Cash Provided by Operating Activities	\$ 2,591	\$ 2,365
Net Cash (Used in) Provided by Investing Activities	(1,636)	350
Net Cash (Used in) Provided by Financing Activities	(2,014)	1,939
Net Cash (Used in) Provided by Discontinued Operations	<u>\$ (1,059)</u>	<u>\$ 4,654</u>

3. CAPITAL ASSETS

			2002	2001
			(in thousands of dollars)	
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Rental Assets	\$ 158,251	\$ 19,190	\$ 139,061	\$ 126,475
Office Equipment and Furniture	1,887	1,343	544	604
Construction in Progress	1,940	—	1,940	16,010
	<u>\$ 162,078</u>	<u>\$ 20,533</u>	<u>\$ 141,545</u>	<u>\$ 143,089</u>



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

4. NOTES PAYABLE AND LONG-TERM DEBT

a) Notes Payable

At December 31, 2002, the Corporation had short-term debt payable to the GRF of \$15,800,000 (2001 - \$9,700,000), due March 31, 2003. Short-term notes from the GRF bear interest at rates established on a quarterly basis by the Department of Finance. The interest rate at December 31, 2002, is 2.74% (2001 - 1.98%).

b) Long-Term Debt

PRINCIPAL OUTSTANDING	MATURITY DATE	INTEREST RATE	SINKING FUND BALANCE	2002	2001
				in thousands of dollars	
				NET PRINCIPAL OUTSTANDING	NET PRINCIPAL OUTSTANDING
\$ 10,000	June 01/06	6.00%	n/a	\$ 10,000	\$ 10,000
20,000	May 28/08	5.50%	1,180	18,820	19,077
40,000	June 02/08	5.50%	1,808	38,192	38,680
25,000	June 17/19	5.50%	n/a	25,000	25,000
25,000	Jan 25/30	6.10%	543	24,457	24,735
10,000	Dec 1/06	4.75%	n/a	10,000	10,000
<u>\$ 130,000</u>			<u>\$ 3,531</u>	<u>\$ 126,469</u>	<u>\$ 127,492</u>

The long-term debt, due to the GRF, is reported net of associated sinking funds. The annual sinking fund contribution is equal to 1% of the long-term debt principal.

c) Fair Value

The fair values of the notes payable and long-term debt, based on their net present values at December 31, 2002, is \$153,600,000 (2001 - \$141,900,000).

d) Interest Expense

Interest expense consists of the following:

	2002	2001
	in thousands of dollars	
Notes Payable	\$ 754	\$ 1,434
Long-Term Debt	7,212	6,849
	<u>7,966</u>	<u>8,283</u>
Investment Division (Discontinued Operations)	(406)	(868)
Interest Capitalized	(180)	(810)
Interest Income	(35)	(89)
	<u>\$ 7,345</u>	<u>\$ 6,516</u>



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

5. APPROPRIATED RETAINED EARNINGS

Amounts received from the GRF as investment contributions in excess of the charge in the current period for impaired investments are appropriated for potential investment losses. On the date of transfer of the investment portfolio to CIC III, the remaining balance of Appropriated Retained Earnings was transferred to Unappropriated Retained Earnings.

	2002	2001
	<i>in thousands of dollars</i>	
Opening Balance	\$ 1,665	\$ 3,097
Amount Appropriated During the Year	(1,020)	(1,432)
Transfer to Unappropriated Retained Earnings	(645)	-
Ending Balance	<u>\$ -</u>	<u>\$ 1,665</u>

6. FINANCIAL INSTRUMENTS

a) Significant Terms and Conditions

There are no significant terms and conditions related to current assets or liabilities that may affect the amount, timing and certainty of future cash flows. Significant terms and conditions for the other financial instruments are disclosed separately in these financial statements.

b) Fair Value

Due to their short-term nature, the carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values.

c) Interest Rate Risk

Interest rate risk is the risk of financial loss resulting from changes in market interest rates. Changes in interest rates on financial assets and liabilities with variable rates have a direct impact on earnings.

The Corporation's estimated exposure to interest rate risk is significant. Management will continue to seek opportunities to convert short-term debt to longer terms in an effort to mitigate this risk. As well, management has made an effort to match variable rate assets and liabilities.

d) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. Although the Corporation's policy to promote economic development leads to accepting some tenants that have higher credit risk, potential losses are mitigated by the fact that no one tenant occupies more than 10% of rentable space.

7. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan are also considered related parties.



NOTES TO THE FINANCIAL STATEMENTS

December 31, 2002

Routine operating transactions with related parties are settled at agreed upon amounts under normal trade terms. These transactions and amounts outstanding at year end are as follows:

	2002	2001
	<i>in thousands of dollars</i>	
Accounts Receivable and Prepaid Expenses	\$ 530	\$ 1,691
Accounts Payable	724	1,973
Rental and Development Income	6,762	7,081
Operating Expense	12,839	10,059

Accounts payable includes \$1,076,000 (2001 - \$1,076,000) of interest payable to the GRF.

The Corporation pays Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

8. PENSION PLAN

All employees are members of the Capital Pension Plan, a defined contribution plan administered by CIC. The Corporation's financial obligation is limited to making regular payments in proportion to employees' earnings.

9. COMMITMENTS AND CONTINGENCIES

The estimated costs to complete projects under construction are approximately \$1,018,000 (2001 - \$759,000).

The Corporation holds long-term land leases with both the University of Saskatchewan and the University of Regina for research park development. The actual lease payments are nominal.

At December 31, 2002, the Corporation has an unsecured operating line-of-credit at the Bank of Nova Scotia of \$2,000,000, of which no amount had been drawn on (2001 - nil). The line-of-credit bears interest at the bank's prime rate.

The Corporation continues its discussion with the City of Saskatoon regarding electrical consumption for one building at Innovation Place that was not appropriately metered for the period of 1987 to 2002. The Corporation has accrued an amount which is considered to be a reasonable estimate based on the current facts. The Corporation will account for any overage or shortage in the settlement amount in the period in which the issue is resolved.

The Corporation is also the defendant in other legal suits and disputes that have arisen in the normal course of business. The Corporation does not believe that the ultimate resolution of these matters will result in any material liability.

10. COMPARATIVE FIGURES

Certain prior years' comparative figures have been reclassified to conform to the current year's basis of presentation.